Index

AA1000 AccountAbility	income shifting, 361
Assurance Standard,	income statement
314	orientation, 358–359
Abuses, by financial statements	manual adjustments, 371
management, 354–371	materiality game, change,
absolute amounts, 363	360
agency conflicts, 365	materiality high, setting,
aggregated benchmarks, 357	356-357
aggregation risk, ignoring,	materiality, uses/misuses of,
357	354
audit, statement, 362-363	offset, 357–358
below materiality threshold,	persistent behaviors, 370
355-356	presentation vs. disclosure
change in judgment,	game, 359
367-368	reclassifications/continuous
commentary, 365	restatement, 366–367
consolidated financial	shooting, moving target,
statements, 368	369-370
contra-asset/provision items,	static vs. dynamic
360-361	benchmarks, 358
delegation, to service	unbundling misstatements,
organization, 369	361
difficult to understand, 364	undue cost/effort/
entity's circumstances, 368	impracticability, 360
failure to disclose, 355	unrecorded/uncorrected, 371
far in time, 364	watering information, 366

AccountAbility, 21, 46, 315 Assurance Standard, 15	disclosure of, 117, 118, 120, 140, 353
	with immaterial effects, 117
Accounting, 342	scope of change, 117
concept, of materiality, 74, 80	
definition, of materiality, 5	principle, 149
errors, 114, 119, 124	qualitative characteristics of, 10
estimates, 202	
critical, 260–261 inherent level of	standards, 22, 31, 59, 93, 101,
	102, 120, 151, 156, 159,
imprecision, 254	160, 212, 257
judgmental misstatements, 256–257	Accounting Standards Update
	(ASU), 17 Accounts receivables, 342
linkage between estimation	
uncertainty, 254–256	Advisory Committee on
linkage between inherent	Improvements to
imprecision/	Financial Reporting,
misstatements,	212, 213, 215, 220, 267
257—258	Aggregation
linkage between materiality	classes of, 132
and sources, 259–260	risk, 183
management bias, 258–259	AICPA
materiality effect on	Auditing Standards Board
changes, 259	(ASB), 45
reliability of materiality,	Code of Conduct, 20
261	Committee on Accounting
risk of material	Procedure, 268
misstatement,	American Bar Association, 73,
253—254	202
information	Annual financial statements,
cost/benefit ratio, 74	284
qualitative characteristics	Argumentation, 246
of, 11, 16	ASB. See Auditing Standards
literature, 93	Board (ASB)
materiality, 70	Aspect Boundaries, 317, 319
misstatements, 159	Assertions, classification, 161f
policies, 2, 115, 360	Assessing materiality
changes, 329	auditor, 210–211

. 1 (. 1	. 1 004
external professional	guidance, 231
judgment, 210–211	internal, 362
judgment	literature, 231
documentation of, 214	US, 240
professional, 211–214	practice, 239
reasonableness, 214-216	procedures, 78
and reassessment, 216-217	risk, 166, 185
quantitative	and materiality, 162, 163f
assurance, 202	materiality effect on, 164f
concept of, 202-203	types, 162
management discretion,	standards, 49, 54, 71, 73, 77,
208-210	82, 118, 127, 135, 143,
material, 204–208	144, 155, 156, 159, 185,
meaning of, 203-204	205, 207, 211, 216, 224,
vs. qualitative criteria,	225, 230, 234, 253, 258,
200-201	262, 269, 283, 285, 304,
requirement, 204	318, 368
in segment reporting,	Audit Committee, 78
285-287	errors and other legal
Assets, 327	consequences, 349
impairments, 90, 361	Auditing Standards Board
investment, 237	(ASB), 143, 144, 155,
pledged, 237	156, 159–161,
tangible, 251	166-171, 200, 207, 210,
ASU. See Accounting Standards	342
Update (ASU)	transactions/balances/
Attributes, of materiality,	disclosures, 135
47-61	UK, 244
AU-C Section, 200, 201,	Auditors, 2, 76, 81, 83, 118, 124,
205-207, 210, 211, 213,	143, 150, 153, 158, 162,
217, 219, 222, 224-229,	166, 172
231, 232, 234–236, 243,	communication, effect on
246, 253, 256, 257,	materiality, 169f
262-265, 267, 269, 271,	management for
273, 275, 284, 285	justifications, 210
Audit, 342	opinion, 241
firms, 232	reassessment, 216

report, 362 response to fraud, effect on materiality, 170f response to illegal acts, effect on materiality, 171f uses of materiality by, 77–79	direct impact on financial statements, 153 immaterial, 157 indirect impact on financial statements, 153 vs. immaterial misstatements, 155
Balance sheet, 359 Basic Inc. v. Levinson (1988), 88 Basis for Conclusions of IASB, 253 BC48-BC49 testimony, 209	vs. financial statements, 151 misstatements, 156 immaterial, 157 Business ethics, 4 Business model, 96
Behavioral issues, 349–350 component materiality, 368 of organization, 274 persistent, 370	Capital disclosures, 328 CAQ. See Center for Audit Quality (CAQ)
professional, 354 Believe, 366 Benchmark, 231 capital structure,	Carry-over effect, 245, 246 Cash flows, 2, 3, 16, 18, 51, 62, 105, 127, 129, 136, 329 information, 329
237–238 choosing, 234–235 common, 231–232 company life cycle, 238	segmental, 329 Center for Audit Quality (CAQ), 18 forums, 234
deciding percentages, 236 degree of aggregation, 239 normalizing, 235–236 pervasiveness, 238	Chartered Financial Analyst (CFA) Institute, 217, 253 Checklist, 215, 349 Civil liability, 41
relative <i>vs.</i> absolute measures, 232 rules of thumbs, 232–234	Codification, 123, 126 Collective assessment, 262 Common Conceptual
type of industry, 237 volatility, 236–237 Benefit plan disclosures, 330 Biased management, 356	Framework, 15, 23, 26, 43, 47, 75, 77, 79, 80, 94 qualitative characteristics, 13f Common law
Bookkeeping errors, 28, 153	fraud, 43 materiality in, 43

Companies Act, 156 Company's policies, 364	Consensus materiality, 104, 105f
Comparative information	Consolidated financial
approach, 241	statements, 227
basic period, in focus, 239–240	Consultation Paper, 225, 318
corresponding figures vs.	Contingent liabilities, 205
comparative financial	Core statements, 95
statements approach,	Corporate governance, 99
240-243	disclosures, 145
counterbalancing/	Corporate planning, 104
noncounterbalancing	Corporate reporting, 60, 99
misstatements,	COSO, 201
251-252	identify and assess risks, 174
financial/forensic analysis,	internal control over
252-253	financial reporting,
financial position, third	176
statement, 243	risk tolerance, 176
materiality	Counterbalancing material
benchmarks, effect of	misstatements, 359
changes, 250	Counterbalancing/
in future periods, 243–244	noncounterbalancing
in prior period, 240	misstatements, 251
misstatement effect, 250-251	CPA practitioners, 350
structure of notes, 252	Credit quality, 335
uncorrected immaterial	Credit risk
misstatements, 244-250	disclosures, 334
Component auditor, 229	management practices, 334
Component materiality, 228, 229	Criminal penalties, 274
vs. group materiality, 229	Critical accounting estimates,
pro-rata allocation, 229	149
Conceptual Framework, 32,	disclosure, 353
145, 256, 360	guidance, 353
2015 Exposure Draft, 44	in MD&A, 149
IFRS amendments to, 92	SEC Staff, 150
in materiality, 10–33	Custodian, 101
CON 2 materiality, 11, 16, 246	Customer options, materiality
user-specific qualities, 10	of, 341

Degree of aggregation, 239	in Regulation S-K, 6
De Minimis, 115	in Regulation S-X, 6
Disaggregation, 242, 243	rules-based, 139
Disclosure Initiative, 26,	Discretion, 209
32, 43, 76, 81, 93,	Dividends, classification of, 329
142, 348, 349	Documentation, 265
Amendments, 103, 114-116,	
126, 129, 134	Economic materiality, 95
to IAS, 1, 252, 253	EFRAG, 50, 85, 122, 123, 136,
project, 116	244, 326, 350
tentative model	EGCs. See Emergency Growth
prior period errors	Companies (EGCs)
accumulation, 250	Emergency Growth Companies
Disclosures, 278, 329	(EGCs), 86
cash flow, 329	Entity's business model, 336
changes in accounting	Error accumulation process,
policies, 353	248
of critical accounting	Errors treatment, 275
estimates, 353	ESMA. See European Securities
differential, 92	and Markets Authority
effectiveness initiative, 6, 27,	(ESMA)
86, 92, 93, 103, 124, 125	Estimation uncertainty, 328
of financial assets, 140	European Securities, 274
forward-looking, 146, 146f	European Securities and
framework, 4, 5, 16, 18, 93,	Markets Authority
139, 280	(ESMA), 32, 50, 51, 82,
issuer's disclosure controls	85, 122, 135, 136, 225,
and procedures, 352	274, 316, 326
materiality dimensions for,	consultation paper,
137	219, 244
overload, 83	Ex ante, documentation forces
principles-based, 139	discipline, 214
quality of, 138	Exchange Act, 42, 56, 157
relevance, 16, 137	materiality and, 40
disclosure based on, 137f	Exchange transaction
requirements, 6, 125, 132, 139	Expectation gaps, 86
as per SEC, 139	Eyes of management model, 99

Fair value measurement disclosures, 338	special-purpose, 93, 94 standards, 5
FASB. <i>See</i> Financial Accounting Standards Board (FASB) Federal Securities laws, 72 Financial accounting, 20 Financial Accounting Standards Board (FASB), 2, 18, 124, 201, 266, 349, 352 Disclosure Framework, 5 FASB ASC, 250-10, 240, 246 FASB ASC, 280-10-50-1, 228 FASB ASC 250-10-S99-1, 217, 219, 220, 234, 237, 262—264, 269, 270, 355 FASB ASC 250-10-S99-2, 232, 246, 252, 359 FASB CON, 2, 40	Financial statements, 2–4, 10, 15, 20, 26, 51, 59, 77, 80, 84, 93, 94, 97, 116, 118, 120, 121, 123–125, 127, 129, 142, 144, 150, 157, 170, 171, 342, 345, 365 aggregation alternative model, 133 bottom-up model, 131 assertion level, 310 audit of, 54, 175 circumstances, 308–310 compliance, 102 in conceptual framework, 10 disaggregation, top-down model, 129
simplification initiative projects, 5 Financial information, 79, 82	and financial information, 59 general-purpose, 59, 77
qualitative characteristics of, 10, 16	improvement of effectiveness, 348–349
Financial instruments, 132, 140,	level, 305–308 management, abuses by, 354–371
classes, 132 Financial investing, 46	material information in, 63 preparation process, 365
Financial liabilities, 140 Financial performance, 2, 3, 131, 328	Financing component, materiality of, 341
Financial position, 141 Financial reporting, 2, 10, 27, 42, 45, 72, 74, 76, 213	Fixing America's Surface Transportation Act, 6, 21, 86, 103
frameworks, 82	Flexibility zone, 97f
fraudulent, 97, 100 materiality in, 61	Foreign Corrupt Practices Act (FCPA), 157

Forensic accounting analysis, 264	IAS 8 definition, of material misstatement, 249
Forensic analysts, 358, 366	ICAEW, 32, 51, 122, 124, 206,
Form 20-F, of IFRS foreign	226
private issuers, 248	guidance, 244
Framework of the Climate	on materiality for UK
Disclosure Standards	entities, 145
	states, 233
Board, 19, 23	ICOFR. See Internal control
Fraud, 207	over financial
fraudulent financial	
reporting, 356	reporting (ICOFR)
CAAD Cas Consmaller Assembled	IFAC guide, 207, 233 to ISAs, 244
GAAP. See Generally Accepted	•
Accounting Principles	IFRS. See International
(GAAP)	Financial Reporting
Generally Accepted Accounting	Standards (IFRS)
Principles (GAAP), 3	conceptual framework,
disclosure requirements, 208,	assessor in, 55
355	foreign private issuers, 351,
US GAAP states, 268	353
Global Reporting Initiative	IFRSs express, 326, 327
(GRI), 25, 319	requirements, 345
likelihood/magnitude, 315	Illegal acts, 205
Government loan	Immaterial, 22, 119
with below-market rate of	disclosures, 172
interest, 331	errors, intentional, 154
Government-related entities,	information, 122, 124, 150
342	allowed disclosure of, 123
GRI. See Global Reporting	item, 168
Initiative (GRI)	misstatements, 114, 124, 153,
	155
Heat maps, 86	in ICOFR, 184
Held-to-maturity securities, 141	intentional, 155
•	Impairment losses
IASB. See International	reversals of, 331
Accounting Standards	Impracticability, 31, 119
Board (IASB)	Inapplicability, 115

Income statement gains, 333	framework, 16, 18f, 23, 43,
Income tax, 327	46, 75, 80, 134, 202
Industry Working Group score, 316	qualitative characteristics, 12f
Information, 325–340	IFRS 16 recognition or
aggregation, 128, 128f	measurement
disaggregation, 128, 128f	requirements, 326
Inherent estimation	practical implications, 326
uncertainty, 255	principles of disclosure
Inherent risk, 162	project, 45
materiality and, 166f	staff, 201, 203, 206, 241, 281
Integrated reporting, 15, 46, 54,	users' decisions, 342
61, 71, 82, 86, 99, 104,	International Auditing and
106, 136, 203	Assurance Standards
framework, 18, 25, 202, 319	Board (IAASB), 26
materiality, 19	discussion paper, 253
definition, 96	International Auditing
Intention, failure to reassess,	Standards, 240
367	International Financial
Interim amounts	Reporting Standards
materiality and audit risk of	(IFRS), 2, 44, 208,
degree of estimation,	326-345
282	departures, 327
Interim financial statements,	references to materiality
goal of, 277	triggering-specific
Interim reporting, 280	actions, 343-344
Internal control over financial	requirements, 2, 327
reporting (ICOFR), 172	International Public Sector
International Accounting	Accounting Standards
Standards Board	(IPSAS) framework, 11
(IASB), 2, 10, 104, 201,	qualitative characteristics, 14f
203, 204, 216, 260,	Inter-period comparability, 327
326-345, 356	Investors, 118, 124
basis for conclusions, 253	Investors Technical Advisory
disclosure initiative, 15	Committee (ITAC),
projects, 5	320
four-step approach, 303	Involuntary accounting, 118

Iron curtain approach, 245	reporting, 100
ITAC. See Investors Technical	typical materiality abuses,
Advisory Committee	354
(ITAC)	Manipulation, 356
Item, 47, 122	income statement, 358
vs. its content, 48	Material aspects, 317
IT systems, 360	Material disclosures, 6
	Material information, 70, 125
JOBS Act of 2012, 86	in users' decision process, 87f
Judging intention, 271	Material item, 138
Judgments, 209	Materiality, 2
in applying accounting	application, levels of, 79, 120
policies, 328	component, 227–231
misstatements, 256	consolidated vs. entity/
Jumpstart Our Business	separate financial
Startups Act, 6	statements, 227
1	at lower levels, 225–227
KPIs, 269	whole financial statements,
	224, 225
Layered disclosure, 151	applied to
Lease disclosures, 339	bookkeeping, 151-159
Liabilities, 327	internal control over
Likelihood/magnitude	financial reporting,
mapping applied to	172—187
reliability, 261	management commentary,
	143-151
Magnitude/likelihood model,	presentation and disclosure,
90, 90f, 313	120-143
Management	recognition and
absolute amounts, 363	measurement, 114-120
bias, defining, 258	assessment of, 47, 85, 351
commentary, 143, 365	securities regulators, 82
communication, 353	in auditing, 159–172
financial accounting	literature, 33
treatment, 350	augmentation in segment
internal, 362	reporting, 286
multinational groups, 368	concept of, 82, 83f

vs. cost/benefit constraint, 30	classification, 160
decision on, 79-82	definition, 160
definition, 33-47	in estimation range, 257
comparison, 34f	in point estimate, 257
as per IASB, 76	risk and assertion, 161
as per US Supreme Court,	Material non-adjusting events,
59, 60, 71	330
determination, 106, 316	Material permits auditors, 3
process, 302	Measurement bases, 140
dimensions of, 95, 96f	Misstatements, 263, 350,
disclosure dilemma, 94	355-359, 361
discrimination, 104	accounting policy, 370
entity specificity of, 20	balance sheet, 357, 359
for financial reporting, 19	immaterial
financial statements, role in, 27	correction of errors,
graduation of, 85f	274—275
vs. impracticability, 30	GAAP, 267–268
like inventory, 357	immaterial errors, material
as managerial concept, 79	effect of accumulation,
objective of, 10	269, 273–274
paradox, 348	intentional immaterial
as planning tool, 104f	misstatements,
principle, 317	269-271
prudence/neutrality, effect	interim financial statements,
on, 27	materiality for
vs. relevance, 16–19	condensed format of,
in CON 2, 17f	283
relevance, relationship, 24f	judge intentions, 271
reliability, interaction with, 28	legal consequences, 275
standard-specific, defined,	objective element,
326	investigating, 272
tests, 50, 72	particular presentation/
vs. understandability, 25	influencing users,
users of, 80	271–272
uses and effects, 70–79	policy to ignore, 272–273
Material misstatements, 31, 78,	relevant to audit, 273
158, 186	tone from top, 275

treatment of errors, 275-277	Non-current assets, 332
individual vs. cumulative,	
261	Obligation, 330, 331, 340, 341,
aggregation technique/	346
absolute value, 263	Offset, 357–358
analysis at cumulative level,	Organization-wide basis, 314
262	Ownership triangle, 100, 100f
analysis at individual item	
level, 261–262	Paragraph exemplifies risk-
offsetting misstatements,	level graph technique,
262–263	311
trends/ratios, 263-264	Party, 331, 341, 342, 345
intentional immaterial, 355	Performance materiality, 222
materiality	to assess estimation
annual financial statements,	uncertainty, 222
280-281	to assess point estimate, 223
audit considerations,	Performance obligations,
283-284	materiality to assess,
correction of errors,	341
reporting for, 278–279	Perfunctory, 340, 346
estimation uncertainty and	notion of inconsequential,
materiality, 281–283	340
in interim reporting for	performance obligations,
changes in estimates	inconsequential, 340
and accounting	Pervasiveness, 224
policies, 279–280	Pharmaceutical industry, 237
MD&A, interim periods,	Post-end assessment, 264
284	Post Implementation Review of
of prior period, 247	IFRS 8 notes, 287
reference period under	PP&E
IFRS, 277–278	accounting treatment, 330
reference period under US	gains on disposal, 330
GAÂP, 278	information, 330
small vs. large, 221	Practice Statement, 210, 349
unbundling, 361	Practice Statement Exposure
Misuses, of materiality, 354	Draft (ED), 15
Multinational companies, 371	Precision of control, 184
-	

Probability/magnitude Regulatory literature, 342 mapping, 86 Related party, 341 Professional judgment, 211 disclosures, 331 Prudent investor, 53 relationship, 206 **Public Company Accounting** transactions, 226, 325 Oversight Board Resource allocation, 47, 51 (PCAOB), 71, 213, 221 Retrospective accounting change, 141 Qualitative disclosures, 120 Revenue disclosures, 339 Quantitative metrics, 203 Reviews, IFRS financial Quantitative thresholds, 218 statements, 351 absolute dollar amount, case Risk appetite, 177 of, 218 and risk tolerance, 179f adjustment method, 223 materiality Risk-level graphs, 86, 88f, 312 decided by auditors, decoupled effect, 89f single effect, 89f 223 - 224process analysis of, 223 Risk management strategy, 333 misstatement, 219 Risk tolerance, 176 large, 219-221 in financial reporting, 180 small, 219 as indirect measure of needs, 217 materiality, 181 performance materiality, and materiality, 180 221 - 223and performance materiality, role of, 217-218 182f and precision of controls, 182 Reasonable investor, 52–53, 73 Roll-over approach, 245, 274 Record-keeping procedures, 151 Rule 4-02 of Regulation S-X, Regulation S-K, 21, 56, 86, 103, 268 147, 150, 205 disclosure requirements in, 6 Sarbanes-Oxley Act (SOX), 91, Regulation S-X, 56, 60, 94, 116, 172 122, 123, 132, 142 Satellite reports, 95 disclosure requirements in, 6 Scarce resources, 360 for filings of financial Securities Act of 1933, 143 statements, 41 materiality definition, 33 schedule A, 205

Securities and Exchange Commission (SEC), 6, 21, 146	Sustainability Accounting Standards Board (SASB), 47
Advisory Committee on	sustainability reporting, 316
Improvements to	Sustainability reporting, 60
Financial Reporting, 81	Sustainable Accounting
Commissioner Arthur Levitt, 218	Standards Board, 39
disclosure system, 86	Tax liabilities, 330, 354
staff, 235, 243, 265, 279,	Tax reconciliation, 330
351–353, 358	Time pressure, 360
Securities Exchange Act, 42,	TMT industry, 237
143, 157 Securities investors, 92	Trading securities, 141
Securities laws, 43, 76, 82	20-F, of foreign private issuers,
Securities regulators, 101	347
Sensitivity analysis, 330, 336	II Matawialita 102
Service-level agreements	U-Materiality, 103 Under Integrated Reporting,
(SLAs), 369	217
Signal management intentions,	United States Securities and
271	Exchange Commission
Significance/influence matrix,	(SEC), 351
316	Unit of account, 341, 346
Simplification Initiative, 5	Units-of-delivery, 343
Smaller Reporting Companies (SRCs), 86	Users
Sommer Report, 205	decisions, 342
SRCs. See Smaller Reporting	expectations, 304
Companies (SRCs)	of financial statements want, 326
Staff skills, 360	need information, 327–339
Stakeholders, 99	want, 327–339
Standard-setters, 74, 80	standard, 326
view, 348	
Statement, of cash flows, 329	Verification
Stock Exchange reaction, 266	accounting changes,
Subtotals, reconciliation of, 328	implication, 266–267

approaches to verify
materiality ex post,
265–266
assessing decisions, 264–265
documentation, 265
methods to assess estimates,
267

Voluntary change, 242

World Resources Institute (WRI), 46 Written procedures, 370

Zero materiality, 107